LOAN AGREEMENT

WORKING FILE COPY

Between

LEATHER INDUSTRIES OF KENYA LIMITED

And the

COPY FOR YOUR INFORMATION

UNITED STATES OF AMERICA

Acting through the

AGENCY FOR INTERNATIONAL DEVELOPMENT

Date: August 31, 1983

Project No. 940-0002.12
Loan No. 615-T-019
Budget Plan Code PDAA 83-39615-AL-11

FUNDS [illegible]
REPUBLIC OF KENYA
DATE: 08/31/83

Certified to be a True Copy of the Original Loan Agreement between the above-named parties signed on August 31, 1983.

Edward A. Dragon
Edward A. Dragon
Senior Regional Legal Advisor, REDSO/ESA

DATE: SEP 6 '83

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LOAN AGREEMENT

Loan Agreement, dated as of August 31, 1983, between Leather Industries of Kenya Limited ("LIK"), a Kenyan corporation, ("Borrower") and the United States of America, acting through the Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set forth the understandings of the parties named above ("Parties") with respect to the undertaking by the Borrower of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

Section 2.1. Definition of Project. The Project, which is further described in Annex A, will consist of the establishment of a finished-leather export business, including a tannery, in Kenya. The business is expected to create new employment, provide a market for quality Kenyan rawhides and act as a catalyst for the development of rural private agribusinesses in Kenya. A.I.D. anticipates that its contribution to the Project may reach a level of Two Million Two Hundred Thousand United States ("U.S.") dollars ($2,200,000) in the form of a loan, subject to the availability of funds and the Parties' mutual agreement. The total cost of the Project is estimated at approximately Nine Million Eight Hundred Ten Thousand U.S. Dollars ($9,810,000).

Within the limits of the above definition of the Project, elements of the amplified description stated in Annex A may be changed by written agreement of the authorized representatives of the Parties as provided in Section 10.3, without formal amendment of this Agreement.

Section 2.2. Definition of Terms.

(a) Eligible Costs. As specified in Section 7.3, or except as A.I.D. may otherwise agree in writing, Eligible Costs include local currency costs or goods and services which have their source and origin or nationality in the United States. Local currency costs are the cost of goods and services indigenous to Kenya. Indigenous goods are defined as those goods that have been mined, grown, or produced in Kenya. If the locally produced goods contain imported components, to fit within this definition, a commercially recognized new commodity must result that is substantially different in basic characteristics or in purpose or utility from its components. Locally produced goods containing imported components from non-free world sources are excluded from this definition. Indigenous services are those performed by Kenya citizens or firms with at least 50% Kenya ownership.

(b) Source and Origin or Nationality. Source means the country from which a good is shipped and origin is the country in which a good is produced. Nationality for an individual means the country of citizenship and country of principal place of business, and for a firm means country of incorporation or legal organization, country of principal place of business and country of citizenship of owners of more than 50% of each class of stock.

(d) Motor Vehicles. Motor vehicles, for the purpose of Section 7.15 are defined as self-propelled vehicles with passenger carriage capacity such as highway trucks, passenger cars and buses, motorcycles, scooters, motorized bicycles and utility vehicles. Excluded from this definition are industrial vehicles for materials handling and earth moving such as lift trucks, tractors, graders, scrapers, and off-the-highway-trucks.

Article 3: Resources for the Project

Section 3.1. The Loan. A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend to the Borrower under the terms of this Agreement not to exceed Two Million U.S. dollars ($2,000,000) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as the principal ("Principal"). The Loan may be used to finance eligible foreign exchange and local currency costs required for the Project as set forth in section 7.3. Except as A.I.D. may otherwise agree in writing, disbursements under the Loan will be available for up to two and one-half (2 1/2) years from the date of this Agreement.

Section 3.2. Borrower Resources for the Project.

(a) The Borrower agrees to provide all resources necessary to carry out the Project effectively, in a timely manner, and consistent with the terms of this Agreement.

(b) The Borrower unconditionally agrees to repay the Loan under the terms and conditions of this Agreement.

Article 4: Loan Terms.

Section 4.1. Interest. The Borrower will pay to A.I.D. interest which will accrue at the rate of twelve percent (12%) per annum on the outstanding balance of principal and on any due and unpaid Commitment Fee and interest. Interest on the outstanding balance will accrue from the date (as defined in Section 8.3) of each respective disbursement. The first payment of interest will be due and payable six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D. Thereafter, interest

shall be calculated and paid on each successive semi-annual anniversary. In the event of default, and if the final payment is not made when due, interest shall accrue thereafter at twelve percent (12%) per annum.

Section 4.2. Commitment Fee. The Borrower will pay to A.I.D. a Commitment Fee of one-half percent (1/2%) per annum on the average daily amount not disbursed under the Project Agreement. This fee will begin to accrue six (6) months after the execution of this Agreement and will be payable for each six (6) month period thereafter for as long as the A.I.D. Loan remains available. The Commitment Fee(s), if any, will be payable, unless otherwise ageeed by A.I.D. in writing, on each six (6) month anniversary of the effective date of this Agreement except for the first six (6) month anniversary to which the grace period applies, and shall be payable at the place of payment specified in Section 4.4.

Section 4.3. Repayment of Principal. The Borrower will repay to A.I.D. the Principal within twelve (12) years from the date of the first disbursement in sixteen (16) approximately equal semi-annual installments of Principal and interest. The first installment of Principal will be payable three and one-half (3 1/2) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under this Agreement.

Section 4.4. Application, Currency, and Place of Payment. All payments of interest, Commitment Fee and Principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due, then to the payment of the Commitment Fee (if any) due and owing, and finally to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Cashier, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management or by electronic fund transfer to the Federal Reserve Bank of New York by specifying a Credit to U.S. Treasury, New York City, A.I.D. Agency Location Code 72000001, A.I.D. Loan Number 615-T-019, in payment on the referenced Loan.

Section 4.5. Prepayment. At any time when the Borrower is current on all payments, the Borrower may prepay all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of principal in the inverse order of their maturity. The Borrower shall pay a prepayment penalty amounting to one percent (1%) of pre-paid amounts. In the event of any exercise by A.I.D. of its right to accelerate repayment pursuant to Section 9.3, the Borrower shall not be obligated to pay a prepayment penalty.

Section 4.6. Late charges. In the event of late payment of amounts due A.I.D. under Section 4.1, 4.2 or 4.3, or any sums due A.I.D. by way of refunds under Section 9.6, a late payment charge will accrue on the unpaid installment. This late payment charge on the unpaid installment will accrue to A.I.D. on a semi-annual basis at the interest rate of the Loan and will be calculated from the date it was due to the date it was received by A.I.D. Late payment Charges will be computed as if each year consisted of three hundred and sixty-five (365) days.

Section 4.7. Termination on Full Payment. Upon payment in full of the Principal and any accrued interest and Commitment Fee, this Agreement and all obligations of the Borrower and A.I.D. under it will cease.

Section 4.8. Termination by Borrower. At any time during twelve (12) months from the date hereof or until the initial disbursement is made pursuant to Section 5.1 and Section 8.1, whichever is earlier, and upon payment of any Commitment Fee accrued under the terms of Section 4.2, Borrower may terminate this Agreement by written notice to A.I.D. and the Borrower shall have no further obligation.

Article 5. Conditions Precedent to Initial Disbursement

Section 5.1. Conditions Precedent to Initial Disbursement. Prior to the first disbursement under the Loan under the provisions of Section 5.1 and Section 8.1, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of independent counsel to the Borrower satisfactory to A.I.D. that the Borrower is duly incorporated and validly existing under the applicable laws and regulations of Kenya and has corporate power to conduct a leather export and tannery business and to enter into this Agreement; that this Agreement has been duly authorized, and/or ratified by and executed on behalf of, the Borrower; that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms, including the security arrangement described in Section 7.6; and that all Kenyan regulations, laws and governmental approvals applicable to the Loan, including registration or notification, have been complied with;

(b) Evidence or certification by Borrower that all Kenyan regulations, laws and governmental approvals applicable to the Loan, including registration or notification have been complied with;

(c) A statement of the name of the person holding or acting in the Office of the Borrower specified in Section 10.2, and of any additional representatives of Borrower, together with a specimen signature of each person specified in such statement;

(d) A copy of an audited financial statement of the Borrower as of Borrower's latest fiscal year (if any), audited by an independent accounting firm acceptable to A.I.D., together with a copy of Borrower's most recent, unaudited financial statement certified by the Borrower's chief financial officer;

(e) A representation by the Borrower that there has been no material adverse change in the financial condition of the Borrower since the date of this Agreement, and since the date of the most recent audited financial statement presented to A.I.D., and that with respect to any other indebtedness of the Borrower there are no claims outstanding;

(f) Details of layout, plant specification, and process description in form and substance satisfactory to A.I.D. for the tannery plant which utilizes environmentally sound design guidelines for liquid and solid effluents, and which locates the plant to mitigate to the extent possible the negative impacts of noxious fumes as well as the effluents. Design documents should identify the anticipated negative impacts which cannot be completely mitigated such as the effect of noxious fumes and the risk and consequences of treatment plant breakdown.

(g) Evidence that arrangements acceptable to A.I.D. for collateral or a security interest(s) for the A.I.D. Loan have been made, as referenced in Section 7.6;

(h) A representation by the Borrower that an amount equal to the amount of the A.I.D. Loan requested for disbursement will be utilized within 90 days to finance Eligible Costs as defined in Section 2.2 (a) and as provided by Section 8.1(b), and as required by Section 7.3;

(i) A technical assistance agreement executed between LIK and the Union des Tanneries de Malmedy et Tanneries Moderne ("Utammo") in manner and form satisfactory to A.I.D. counsel;

(j) A marketing agreement between LIK and Utammo in form and substance satisfactory to A.I.D. counsel; (It is expected that Utammo will sell up to eighty-five percent (85%)--or a minimum of seventy percent (70%)--of the production of finished leather of the Project in the early years of the operation);

(k) A Letter of Intent by Industrial Promotion Services (Kenya) Limited ("IPS") and its affiliate companies committing to divest up to fifty percent (50%) of its shares to private Kenyans eight to ten (8-10) years after Project Completion Date;

(l) Evidence that LIK has successfully raised and has lawful access to an agreed amount of Nine Million Eight Hundred and Ten Thousand U.S. Dollars ($9,810,000), including A.I.D. financing, by September 30, 1983, of which not less than Three Million Five Hundred Thousand U.S. Dollars ($3,500,000) is equity; and

(m) Evidence that Borrower has entered into an agreement, in form and substance satisfactory to A.I.D., whereby there shall be provided to the Borrower certain funds which may be needed by it to complete the Project and ensure that the Working Capital at the Project Completion Date is not less than the equivalent of Three Hundred Fifty-Eight Thousand U.S. Dollars ($358,000).

(n) A detailed implementation plan outlining the Borrower's program for site purchase, equipment acquisition and construction start-up.

(o) Evidence that interest payments paid by the borrower to A.I.D. will not be subject to any Government of Kenya taxes.

Section 5.2. Terminal Dates for Conditions Precedent for Initial Disbursement.

If all of the conditions specified in Section 5.1 have not been met within two hundred and forty (240) days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Borrower.

Section 5.3. Conditions Precedent to Subsequent Disbursements.

Prior to subsequent disbursements under the Loan, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Borrower shall, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) A copy of an audited financial statement of the Borrower as of Borrower's latest fiscal year, audited by an independent accounting firm acceptable to A.I.D., together with a copy of Borrower's most recent, unaudited financial statement certified by the Borrower's chief financial officer;

(b) A representation by the Borrower that there has been no material adverse change in the financial condition of the Borrower since the date of the most recent disbursement under the Loan, and since the date of the most recent audited financial statement presented to A.I.D., and that there are no claims outstanding with respect to any other indebtedness of the Borrower;

(c) Evidence of continuing adherence to the environmental guidelines contained in the final engineering design for the tannery plant as described in Section 5.1 (f);

(d) Evidence that continuing arrangements acceptable to A.I.D. for collateral or a security interest for the A.I.D. Loan have been made, as referenced in Section 7.6; and

(e) A representation by the Borrower that an amount equal to the amount of the A.I.D. Loan requested for disbursement will be utilized within ninety (90) days to finance Eligible Costs as defined in Section 2.2 (a) and provided by Section 8.1(b), and as required by Section 7.3.

Article 6: General Covenants

Section 6.1. Project Evaluation. The Parties agree to cooperate on an A.I.D.-conducted evaluation program as part of the Project. The program may include, during the implementation of the Project and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Project; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Project. A.I.D. shall bear its costs involved in such evaluation.

Section 6.2. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, and other matters relating to the Project.

Section 6.3. Execution of Project. The Borrower will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices; and (b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project; and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

Section 6.4. Taxation. No funds made available under the A.I.D. Loan shall be used for the payment of any taxes, tariffs, duties or other levies imposed on the Borrower.

Section 6.5. Reports, Records, Inspections, Audit. The Borrower will:

(a) furnish A.I.D. such of Borrower's information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, Borrower's books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Loan. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained except as A.I.D. may otherwise agree in writing, until the Loan has been fully repaid by the Borrower;

(c) afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect Borrower's books, records, and other documents relating to the Project and the Loan to verify that Project funds are being used in accordance with the terms and conditions of this Agreement; and

(d) comply with the reporting requirements detailed in Annex A.

Section 6.6. Completeness of Information. The Borrower confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Loan, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement; and

(b) that it will inform A.I.D. in a timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

Section 6.7. Information and Marking. The Borrower will give appropriate publicity to the Loan and the Project as a program to which the United States has contributed and identify the Project as financed partially by A.I.D., as may be described in Project Implementation Letters, as described in Section 10.3 below.

Article 7: Special Covenants

Section 7.1. Covenant of Non-Subordination. The Borrower confirms that this A.I.D. Loan is not and shall not be subordinated to any other indebtedness of the Borrower now existing or hereinafter incurred, except as A.I.D. may otherwise agree in writing.

Section 7.2. Operational Date. The Borrower agrees that the Borrower's business operations as described in Annex A hereto must be operational thirty (30) months after loan execution (the "Project Completion Date").

Section 7.3. Eligible Costs. The Borrower covenants that during the term of this Agreement, not less than the equivalent of Two Million U.S. Dollars ($2,000,000), or the amount of the Loan actually drawn down, whichever is less, which will be attributed to this Loan, will be used to finance Eligible Costs, as more fully defined in Section 2.2(a).

Section 7.4. Effective Date for Eligible Costs. The Borrower agrees that no goods or services may be attributed to this Loan under Section 7.3 which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as A.I.D. may otherwise agree in writing.

Section 7.5. Competition. The Borrower covenants that it will not enter into any transaction with any person except in the ordinary course of business, on ordinary commercial terms and on the basis of arm's-length arrangements, or establish any sole and exclusive purchasing or sales agency (except as provided under the Marketing Services Agreement), or enter into any transaction whereby the Borrower might pay more than the ordinary commercial price for any purchase or might receive less than the full ex-works commercial price (subject to normal trade discounts) for its products.

Section 7.6. Collateral or Security Interest. The Borrower covenants that it will provide A.I.D. with a security interest in: (a) its plant and equipment, including improvements; and (b) its interest in the property upon which LIK is to be conducted, together with all proceeds of said property or otherwise which is sufficient to secure payment and performance of Borrower under the terms of this Agreement, which security interest shall not be subordinated to any other security interest but may be pro rata to that of other long-term lenders to LIK, provided that such arrangement is acceptable to A.I.D. Borrower will take all steps which may be required to execute and perfect this security interest under the laws of Kenya. It is understood that Borrower may effect this provision through arrangements with the International Finance Corporation, provided such arrangements are acceptable to A.I.D.

Section 7.7. Dividends Limitation. The Borrower covenants that it will not declare or pay any dividend or make any distribution on its share capital or purchase, redeem or otherwise acquire any

shares of LIK or any option over such shares: except out of profits earned after Project Completion Date and then only if, after giving effect to such action, the working capital would be at least the equivalent of Four Hundred Thousand U.S. Dollars ($400,000) and the Current Ratio would exceed 1.3/1. Under no circumstances will any such dividend payment or distribution of share capital take place if LIK is in default on any payment of Principal, interest or Commitment Fee payable on any outstanding loan or deficiency loan provided for cost overruns.

Section 7.8. Expenditures. The Borrower covenants that it will not incur expenditures or commitments for expenditures for fixed and other non-current assets, other than those required for carrying out the Project or necessary for repairs or replacements essential to Borrower's business or operations, in excess of an aggregate amount equivalent to Three Hundred Thousand U.S. Dollars ($300,000) in any financial year.

Section 7.9. Allowable Indebtedness. The Borrower covenants that it will not incur, assume or permit to exist any indebtedness except:

(i) the A.I.D. Loan and the Borrower's loans with the Development Finance Company of Kenya, the East Africa Development Bank, Frida and the International Finance Corporation; and export credits;

(ii) the letter of credit facilities (needed for importation of raw materials) not exceeding Five Hundred Thousand U.S. Dollars ($500,000) equivalent at any one time outstanding; and

(iii) indebtedness incurred in the ordinary course of business other than for money borrowed;

For the purposes of this subsection, any credit from a supplier of capital goods (or under any installment purchase or other similar arrangement) shall be deemed to be indebtedness not incurred in the ordinary course of business and shall be permitted only to the extent provided in subparagraph (i) above.

(iv) Overdraft facilities not exceeding at any one time outstanding an amount equal to seventy five per cent (75%) of the aggregate amount of the Company's accounts receivable and inventories.

Section 7.10. New Liens. The Borrower covenants that it will not create or permit to exist any lien on any property, revenues or other assets, present or future, of the Borrower, except those pro rata rights held by A.I.D. and the lenders described in Section 7.9(i) above.

Section 7.11. Guarantees or Financial Obligations. The Borrower covenants that it will not (except for bonds required to be given by the Borrower to departments or agencies of the Government

of Kenya in respect of the expatriate employees of LIK) enter into any agreement or arrangement to guarantee or, in any way or under any condition, to become obligated for all or any part of any financial or other obligation of another, other than those required to carry out the project.

Section 7.12. Partnership Arrangements. The Borrower covenants that it will not enter into any partnership, profit-sharing or royalty agreement or other similar arrangement whereby Borrower's income or profits are, or might be, shared with any other person; or enter into any management contract or similar arrangement whereby its business or operations are managed by any other person, except for the proposed subordinated deferred profit-sharing note with Frida.

Section 7.13. Loans, Advances or Deposits. The Borrower covenants that it will not form or have any Subsidiary, or make or permit to exist loans or advances to, or deposits (except commercial bank deposits in the ordinary course of business) with others or investments in any other company or enterprise, except for (a) to provide advances in respect of the purchase price for hides, or (b) to invest in short-term marketable securities acquired solely to give temporary employment to its idle resources.

Section 7.14. Corporate Documentation. The Borrower covenants that it will not change its Memorandum or Articles of Association in any manner which would be inconsistent with the provisions of this Agreement; increase its authorized capital; change its Financial Year; change the nature of its contemplated business or operations or change the nature or scope of the Project; sell, transfer, lease or otherwise dispose of (whether in a single transaction or in a series of transactions, related or otherwise) all or a substantial part of its capital assets; or undertake or permit any merger, consolidation or reorganization.

Section 7.15. Specific Restrictions. The Borrower covenants that no portion of the A.I.D. Loan shall be used, unless A.I.D. agrees in writing, to finance enterprises involving the production, processing or marketing of sugar, palm-oil, cotton, or citrus, in whole or in part, for export; or to finance motor vehicles, as defined in Section 2.2 (d), not manufactured in the United States; or to finance the manufacture, importation, distribution, or application of pesticides; or to finance luxury goods or gambling equipment, police, other law enforcement, or military activities, materials for explosives, surveillance equipment, abortion equipment and services, or weather modification equipment.

Section 7.16. Shipping. As described in Annex A it is anticipated that all A.I.D. Loan funds will be attributed to the purchase of local currency costs, as defined in Section 2.2(a) above. In the event, however, that the Borrower chooses to import U.S. goods into Kenya for Project purposes, the Borrower also covenants to comply with the following provisions:

(a) Goods which are to be transported to Kenya may not be financed under the Loan if transported either:

(1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment; or

(2) on an ocean vessel which A.I.D., by written notice to the Borrower has designated as ineligible; or

(3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Loan, if such goods or persons are carried:

(1) on an ocean vessel or aircraft under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written A.I.D. approval; or

(2) on an ocean vessel which A.I.D., by written notice to the Borrower, has designated as ineligible; or

(3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels,

(1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and

(2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the territory of the Borrower on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to any cargo transported from U.S. ports, computed separately.

(d) In the event the Borrower wishes to use the Loan to purchase marine insurance, prior A.I.D. approval is required.

Article 8. Disbursements

Section 8.1. Disbursement Mechanism. (a) After satisfaction of conditions precedent as set forth in Section 5.1, the Borrower may obtain disbursement of funds under the A.I.D. Loan by requesting A.I.D. to issue a Letter of Commitment or Letter of Credit to a U.S. bank ("Bank"), which has a branch in Kenya, committing A.I.D. to reimburse such Bank for payment made by it to the Borrower and, for each disbursement, by providing such Bank with a request and certificate ("Request and Certificate"), in the form set forth in Annex B, requesting a specific dollar amount for disbursement and certifying that it has complied with the Conditions Precedent to Initial Disbursement set forth in Section 5.1 and that it is in compliance with all the covenants and other terms and conditions of this Agreement and Annex A. In each such Request and Certificate submitted following the initial disbursement, Borrower shall request a specific dollar amount for disbursement and certify that it has complied with the Conditions Precedent to Subsequent Disbursements set forth in Section 5.3 and that it is in compliance with all the covenants and other terms and conditions of this Agreement and Annex A. The Borrower and the Bank or Banks may establish such further procedures for disbursement as they may mutually agree upon;

(b) Disbursements shall be requested by Borrower and made by A.I.D. in multiples of One Hundred Thousand U.S. Dollars ($100,000); and

(c) Banking charges incurred by Borrower in connection with the Letter of Credit or Letter of Commitment under this Agreement will be financed under the Loan unless the Borrower instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

Section 8.2. Other Forms of Disbursement. Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

Section 8.3. Date of Disbursement. Disbursements by A.I.D. will be deemed to occur on the date on which A.I.D. makes a disbursement to Bank, pursuant to a Letter of Commitment or a Letter of Credit.

Article 9: Termination; Remedies.

Section 9.1. Cancellation by Borrower. The Borrower may, by giving A.I.D. 30 days written notice, cancel any part of the Loan which has not been disbursed. Any Commitment Fee applicable to the undisbursed amount pursuant to Section 4.2 shall be calculated to the date of cancellation, which is thirty (30) days after A.I.D. has

received written notice of cancellation from the Borrower. Such Commitment Fee shall be due to A.I.D. on the date of cancellation in the manner provided in Section 4.4.

Section 9.2. Events of Default. It will be an "Event of Default" if Borrower shall have failed:

(a) to pay when due any interest, Commitment Fee or installment of Principal required under this Agreement; or

(b) to comply with any other provision of this Agreement and Annex A; or

(c) to pay when due any interest or installment of Principal or other payment required under any other loan, guaranty or other agreement between the Borrower and A.I.D. or any of its predecessor agencies; or

(d) to meet any of its obligations under the terms and conditions of loan agreements with any of its other lenders; or

(e) to have made payments for equipment and related services under this agreement as eligible costs, or any other costs, with loan funds more than 90 days after such funds were disbursed to borrower;

(f) to provide accurate and timely Financial Statements as required by Part III of Annex A; or

(g) to meet any of its obligations under the terms and conditions of any loan for the Project from the Development Finance Company of Kenya, the East Africa Development Bank and the International Finance Corporation, in the event A.I.D. at its discretion shall so determine.

Section 9.3. Suspension; Acceleration.

If at any time:

(a) An Event of Default has occurred; or

(b) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Loan will be attained or that the Borrower will be able to perform its obligations under this Agreement; or

(c) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.;

Then A.I.D. may:

(d) suspend or cancel the Loan and any amount of the Loan that is not disbursed; and/or

(e) if an event specified in Section 9.3(a)-(c) has occurred, declare, by notice to Borrower, its intention to declare a Default according to Section 9.3(f) below, unless such Event of Default is cured within ten (10) days; and/or

(f) if an event specified in Section 9.3(a)-(c) has occurred, declare, by notice to Borrower, a Default, whereby, at A.I.D.'s option, all or any part of the Principal of, and all or any part of accrued Commitment Fees and/or interest on the Loan forthwith without any further notice and without any presentment, demand or protest of any kind, all of which are expressly waived by the Borrower.

Section 9.4. Cancellation by A.I.D. If, within sixty (60) days from the date of any suspension of the Loan pursuant to Section 9.3(d), the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Loan that is not then disbursed.

Section 9.5. Continued Effectiveness of Agreement. Notwithstanding any cancellation, suspension of disbursements, or acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all Principal and accrued Commitment Fee and interest hereunder.

Section 9.6. Refunds. In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the Borrower to refund the amount of such disbursement in United States Dollars to A.I.D. within sixty (60) days after receipt of a request therefore. The right to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for the term of this Agreement. Any refund will be applied to the installments of Principal in the inverse order of their maturity.

Section 9.7. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

Article 10: Miscellaneous.

Section 10.1 Communications. Any notice, request, document, or other communication submitted by either Party to the other under

this Agreement will be in writing or by telegram, cable or telex, and will be deemed duly given or sent when delivered to such party at the following address:

To Borrower:

Mail Address: Leather Industries of Kenya Limited
c/o Industrial Promotion Services
(Kenya) Ltd.
P.O. Box 30500
IPS Building
Kimathi, Nairobi, Kenya

Attn: Project Director

Alternate address for telex: 22263 IPS NAIROBI

Alternate address for cable: IPS NAIROBI

To A.I.D.:

Mail Address: Office of Investment
Bureau for Private Enterprise
Agency for International Development
Department of State
Room 5893
Washington, D.C. 20523

Alternate address for telex: 248766 Answerback: COM-UR

All such communciations will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The Borrower, in addition, will provide the USAID Mission in Kenya with a copy of each communication sent to A.I.D.

Section 10.2. Representatives. For all purposes relevant to this Agreement, the Borrower will be represented by the individuals who are duly authorized representatives of the Borrower empowered to commit the Borrower, and A.I.D. will be represented by the individual holding or acting in the Office of Assistant Administrator, Bureau for Private Enterprise, each of whom, by written notice, may designate additional representatives for all purposes. The names of the representatives of the Borrower, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 10.3. Project Implementation Letters. To assist Borrower in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex A.

Section 10.4. Governing Law. This Loan Agreement shall be governed by the laws of the United States and the District of Columbia.

Section 10.5. Jurisdiction. Borrower consents to jurisdiction in the United States Federal District Court for the District of Columbia and agrees that, unless waived by A.I.D., any action brought to resolve any breach, default, dispute or interpretation of this Loan Agreement shall be commenced in the United States District Court for the District of Columbia.

Section 10.6. Savings Clause. Notwithstanding Section 10.5, nothing shall limit the right of A.I.D. to serve legal process in any manner permitted by law or affect the right of A.I.D. to bring any action or proceeding against the Borrower or its respective property, in the courts of Kenya or in any other courts having jurisdiction.

Section 10.7. Collection Actions. With respect to any collection action brought by A.I.D. under the terms and conditions of this Agreement, Borrower shall pay to A.I.D. the costs of reasonable attorneys fees incurred in connection with any such action within 30 days of submission by A.I.D. to the Borrower of the amount of such fees.

Section 10.8. Amplified Description of the Project. An amplified description of the Project (Annex A) and a form of Request and Certificate (Annex B) are attached to and form part of this Agreement.

IN WITNESS WHEREOF, the Borrower and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

LEATHER INDUSTRIES OF KENYA LIMITED

By: _____
Z.K. Ahamed
Director
Leather Industries of Kenya Limited

Date: 31st Aug. 1983

UNITED STATES OF AMERICA

By: _____
Allison B. Herrick
Director, USAID/Kenya

Date: 31st Aug. 1983

Annex A

PROJECT DESCRIPTION
LOAN TO LEATHER INDUSTRIES OF KENYA LIMITED

I. OBJECTIVES

The purpose of the Project is to establish a finished-leather export business, including a tannery, in Kenya, to be owned by Leather Industries of Kenya Limited (the "Borrower"). The Project is expected to create new employment, provide a market for quality Kenyan animal hides, and act as a catalyst for the development of rural private agribusinesses in Kenya. In addition, by capitalizing on Kenya's world market comparative advantages, the production and export of the finished leather will earn valuable foreign exchange for the Kenyan economy.

Kenya is a country ideally suited to develop its primary processing facilities to produce finished leather. The livestock industry represents nine percent (9%) of Kenya's Gross Domestic Product and twenty-six percent (26%) of National Agricultural Income, yet there has been relatively little effort to enhance the value of domestic hides. It is one of the few countries that still markets the majority of its production in the form of rawhides. The Government of Kenya is aware, however, of the potential developmental aspects of strong export markets for finished leather in Europe and the Middle East, and has implemented a number of measures to promote finished-leather exports.

The Borrower is developing a facility to tan, process and market quality Kenyan animal hides largely for export. Although initially sponsored by a number of foreign and institutional investors, including A.I.D., the International Finance Corporation, the Development Finance Company of Kenya and the East African Development Bank, among others, the finished-leather export business (including the tannery) will ultimately be majority owned by Kenyans. The proposed plant will be built on a three hectare plot in the rural Athi River region twenty-one (21) miles east of Nairobi or near the town of Thika, approximately thirty-six (36) miles to the north. Both plots are in rural areas on land deemed unsuitable for agricultural production but excellent for industrial uses. The area is in need of little further development other than roads, drainage, and the extension of electrical power lines.

The anticipated impact of the project is substantial. Approximately twenty-five percent (25%) of current raw material export volume would be processed prior to export, thereby generating higher net value added for the Kenyan economy. In

addition, the Borrower will enter into a technical and marketing agreement with the Union des Tanneries de Malmedy et Tannerie Moderne S.A. ("Utammo"), a firmly established leather marketing firm in Europe, which promises to provide the new venture with expertise and skill as well as a solid foothold in the European market.

The Project's objectives include:

(1) Rural Employment Generation. The Project will provide direct employment for an initial total of approximately 400 persons, 50 of whom will be in managerial and staff positions. As purchases of semi-processed hides increase the demands on local slaughter houses, indirect employment will result from stimulated supplier production. Further indirect employment will be generated as local pelt and wet blue processing units are established and anticipated downstream industrial development gets underway.

(2) Higher Incomes for Livestock Breeders. The Project's procurement strategy is structured around a premium price to be offered for desired quality raw material. The premium price is a clear incentive for hide buyers to communicate quality standards to cattle owners and to pass on a share of the price premium paid to suppliers over and above the current prices for rawhides. A substantial portion of the higher incomes to cattlemen as a result of the project can be to small breeders if they provide high quality hides.

(3) Foreign Exchange Earnings. Over the twelve-year term of the A.I.D. Loan, it is estimated that approximately Forty Five Million U.S. Dollars ($45,000,000) in net foreign exchange will be earned from the export of finished leather. This amount represents the additional contribution to local value added which the project is expected to realize for the Kenyan economy.

(4) Technology Transfer. There are three levels at which technology transfer will take place in the Project. First, by virtue of the technical know-how agreement with Utammo, the management of the Borrower will receive technical assistance in procurement, operations and marketing at progressively upgraded levels until the company possesses an independent capability to compete in the world market for processed leather. Second, suppliers of hides will be provided with technical assistance in flaying, drying and preliminary hide processing as part of the Project's backward integration strategy. Third, supplier training is

expected to have a pass-through impact on owners of cattle in the form of hide quality specification and suggested optimum husbandry practices. The pass-through technology transfer will be driven by the premium prices provided downstream for high quality hides.

(5) Downstream Industrial Development. Downstream industrial development made possible by the Project is potentially significant. The industrial development areas which would be stimulated by this project include local industries for the production of garments and leather articles, footwear, and chemicals and surface finishes. A variety of other spinoff economic benefits are also likely both at the construction phase of the Project and on a continuing basis.

II. Financial and Implementation Details

The Project to be financed consists of the construction, equipping and placing into operation of a tanning facility for the Borrower, to be located near Nairobi, to process cattle hides into finished leather as well as the establishment of the sales and other elements of a complete finished-leather export business. The Project anticipates, among other things, the purchase of hide and leather processing machinery with a capacity to process one thousand (1,000) hides per day on a three-shift basis; the establishment of suitable laboratory, quality control and workshop facilities; effluent treatment plants; and other off-sites and utilities. It is estimated that the tannery will be in commercial operation by February 29, 1986.

A.I.D.'s participation in the Project consists of providing up to Two Million U.S. Dollars ($2,000,000) in loan resources to assist partially in the estimated Nine Million Eight Hundred Ten Thousand U.S. Dollars ($9,810,000) required for the financing of the Borrower's start-up venture. A.I.D. may also provide up to Two Hundred Thousand U.S. Dollars ($200,000) for project start-up cost overruns as needed after consultation with the IFC and other lenders, subject to the availability of funds and A.I.D.'s agreement to proceed.

The A.I.D. Loan will be used exclusively to finance the local currency costs of goods and services of Kenyan source and origin (or the foreign exchange costs of goods and services of United States source and origin) as described in Section 2.2 of the Agreement. Included are approximately One Million Two Hundred Thousand U.S. Dollars ($1,200,000) for the construction of office and plant buildings and Eight Hundred Thousand U.S. Dollars ($800,000) for furniture and fittings and other local goods and services, or approximately seventy percent (70%) of local costs.

In addition to A.I.D., other lenders for the Project include:

	Approximate Contribution (Millions)
International Finance Corporation	$1.60
Development Finance Company of Kenya and East Africa Development Bank	$1.80
Supplier credits and other sources	$ .88

Investors in the Project include the following:

	Approximate Contribution (Millions)
Investment Promotion Services - Kenya	$ .44
Other IPS-affiliated companies	$ .97
International Finance Corporation	$ .88
Utammo	$ .28
Frida Subordinated Note	$ .50
Private Kenyan Investors	$ .21
Others	$ .25

Including the A.I.D. Loan, the total financing for the Project is approximately Nine Million Eight Hundred and Ten Thousand U.S. Dollars ($9,810,000).

The estimated cost of the Project is approximately Nine Million Eight Hundred Ten Thousand U.S. Dollars ($9,810,000) as summarized below:

	(Millions)
Infrastructure and construction	$ .80
Buildings	$1.03

Plant and machinery	$3.12
Vehicles and furniture	$ .30
Other preproduction expenses including interest and commitment fees	$4.20
Working Capital	$ .36
	$9.81

The Borrower will submit to A.I.D., as a condition precedent to the first disbursement under the Loan, a detailed implementation proposal including layout, equipment particulars and process desciption.

III. REPORTING REQUIREMENTS

The Borrower is required to submit quarterly and annual financial statements consistent with the terms and conditions of the A.I.D. Loan and maintain complete and accurate books and records in accordance with generally accepted accounting standards. The Borrower will provide A.I.D. its unaudited financial statements within sixty (60) days of the end of each fiscal mid-year semester and audited statements one hundred and twenty (120) days after the end of each fiscal year. These statements should be accompanied by revised six (6) month and one-year cash flow projections. Borrower agrees upon reasonable notice to permit A.I.D. and its representatives access to its books and records maintained hereunder together with all supporting documents relating to the A.I.D. Loan. Borrower agrees to cumulate said records and make them available to A.I.D. at Borrower's principal place of business. The financial statements required are described as follows:

QUARTERLY:

- Income (profit/loss), balance sheet and sources and applications of funds statements.
- If appropriate, variance analysis of last quarter cash flow comparing actual against projected flows.
- If appropriate, month by month projected cash flow statement for the next quarter broken out by foreign exchange, local currency and consolidated currencies.

- o If appropriate, reforecast of cash flows for remaining calendar quarters broken out by foreign exchange, local currency and consolidated currencies.

- o A schedule setting forth, for the quarter and for the term of the A.I.D. Loan to date, the amount of the Loan disbursed, the amount of Commitment Fees, principal, interest and pre-payment penalties paid.

- o Evidence that an amount equal to the amount of Principal drawn down under the A.I.D. Loan has been used to finance Eligible Costs as required by Section 7.3 and defined by Section 2.2 (a).

ANNUALLY:

- o Income (profit/loss), balance sheet and sources and applications of funds statements. These statements shall be examined and verified by a competent and independent auditor and shall be accompanied by the auditor's written opinion and report as well as any management letters.

- o A twelve (12) month projected cash flow statement for the next year broken out by foreign exchange, local currency and consolidated currencies.

These above reports shall be accompanied by:

- o A transmittal letter stating whether or not the submissions are in compliance with the terms and conditions stated here.

- o A transmittal letter stating whether or not the Borrower is in compliance with the terms and conditions of all lenders.

- o A letter from Borrower's auditors stating that the Borrower is in compliance with the terms and conditions of the Agreement and this Annex A.

- o Such other financial statements and audit reports that it prepares for publication and for other lenders and/or investors.

Annex B

REQUEST AND CERTIFICATE

Under the terms of the Loan Agreement ("Agreement") between Leather Industries of Kenya Limited, a Kenyan corporation ("Borrower"), and the United States of America acting through the Agency for International Development, dated_____, Borrower hereby requests a disbursement for_____under Letter of Credit or Letter of Commitment No._____.

Borrower certifies that the amount requested for disbursement shall be used immediately (within no longer than 90 days) to procure or finance Eligible Costs as defined in Section 2.2(a) or provided by Section 8.1(b) of the Agreement. Borrower also certifies it has complied with applicable Conditions Precedent to Disbursement set forth in Article 5, and, with specific reference to Section 6.5(b), that it maintains books and records relating to the Project and the Agreement adequate to show, without limitation, the receipt and use of goods and services acquired under the Loan, and the Borrower will afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect such books and records, as provided by Section 6.5(c).

Borrower further certifies that it is in compliance with all the covenants and other terms and conditions of the above referenced Agreement and that there has been no material adverse change in the financial condition of the Borrower since the date of the Agreement.

LEATHER INDUSTRIES OF KENYA LIMITED

By:_____

Date:_____